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CENTRAL INTELLIGENCE AGENCY
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MEMORANDUM

Brazil in the 1980s

Summary

In many respects, Brazil is among the most promising and dynamic of the less developed countries. Important factors for stability in this decade are the government's willingness to accommodate some political change, extensive institutional development, ample experience in overcoming political and economic crises, a rich resource base, and growing ties to other countries in Latin America and elsewhere. [redacted]

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Brazil's efforts to open up its long-closed political system are being challenged by worsening economic conditions. Widespread economic privation underscores the importance of a political safety valve for rising social frustrations. Yet if the government does not soon begin to control inflation, it may feel obliged to suspend or, in extreme circumstances, even abort the liberalization process while it takes stronger measures to right the economy. Brazil's leaders recognize that failure on either the economic or political front would lead to greater unrest and confront them with still more difficult choices. [redacted]

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Policymakers will face similar frustrating alternatives for years to come. Even a modest economic improvement would give Brasilia more breathing

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space, but it would not assure ultimate success. Increasing energy constraints will intensify Brazil's problems because of its almost total dependence on foreign oil and vulnerability to fluctuating global economic conditions. It will take all the skill top policymakers can muster to ease Brazil through the 1980s, and we are apt to see frequent tactical changes on both the economic and political fronts as they seek to cope with the problems. []

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Economic Problems

Slower economic growth poses a major risk for Brazil. The heady tempo of the economic miracle will be tempered by a slowing world economy and oil-induced financial constraints. Growing unemployment and reduced economic opportunities could trigger political demands for counterproductive economic policies. Moreover, the government's ability to redress serious socioeconomic problems--such as unequal income distribution and poverty in the Northeast--will be impaired by the need to sustain austerity measures aimed at improving the balance of payments and fighting inflation. Unanticipated shocks--a new runup in world oil prices, the collapse of international coffee or iron ore markets, disruptions in petrodollar recycling, domestic agricultural disasters--would intensify Brazil's economic woes and worsen social tensions. []

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Chronic inflation and demands for increased urban infrastructure and social services are likely throughout the 1980s, even if Brazil attains the 6-percent economic growth necessary to absorb the growing labor force. Prolonged stagflation could result as Brasilia stretches its resources to the limit. Under these conditions, foreign investor confidence probably would be undermined, jeopardizing Brazil's access to foreign credit. Brazil could then easily be drawn into a major foreign exchange crisis that in turn might provoke demands to nationalize foreign firms or default on foreign debt. []

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Any of these events would threaten the substantial US stake in Brazil. About 600 US firms have direct investments in Brazil valued at nearly \$8 billion. The US is Brazil's major overseas creditor, holding an estimated \$30 billion of the country's foreign debt. Moreover, the US could lose Brazil's cooperation in avoiding excessive competition in world markets and its moderating influence in international forums. []

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Gradual Liberalization

The regime has inherent flexibility and appears prepared to deal with political problems. Brasilia's top political priority, gradual liberalization of the political system, so far has not been abandoned despite the mounting economic concerns. To achieve liberalization without losing control over the pace of change, the regime has given amnesty to political prisoners and exiles and reformed the party system to broaden participation. The government also plans to restore direct elections for state governors and those senators who now are appointed. [REDACTED]

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Even so, further moves toward liberalization will prove increasingly difficult if progress on the economic front is not made during the next six months. If pressed by the economy, the regime may put liberalization "on hold." Adverse socioeconomic conditions have led to increased crime and social unrest--notably in the labor movement. Military hardliners--already dubious about liberalization--see the system further jeopardized by the increasing support the Church is giving to striking workers and landless peasants. Abandoning the political opening, however, might engender a bitter reaction from a public weary of lengthy military rule. [REDACTED]

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The direct congressional and gubernatorial elections planned for 1982 will be a crucial test of the government's policies. The elections could determine the composition of the electoral college that would select the next president, if the regime decides to permit civilians to have a role in that process. The regime almost certainly will take steps--gerrymandering for example--to ensure its supporters retain control. If these moves are too obviously contrived, serious opposition could develop. [REDACTED]

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Brazil's leadership has proved innovative in the past when confronted with economic and political challenges. It has taken some of the difficult steps necessary to deal with current difficulties and expresses confidence that the economy will show improvement while liberalization continues. Without question the 1980s will be difficult, but the Brazilians will be aided by these factors:

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--Their generally optimistic view about their country's future and their tendency to favor compromise rather than confrontation. [REDACTED]

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--In general, the poor and the working classes traditionally have not provided fertile ground for the left. [REDACTED]

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--Most of the political opposition has shown restraint and appears willing to work with the government as long as it does not resort to outright fraud. [REDACTED]

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--The relatively difficult economic conditions of 1979 did not produce much violence or political agitation, even though a record number of strikes occurred. [REDACTED]

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At any time in the 1980s, however, Brazil could find itself in serious economic and political trouble because it is sailing so close to the wind. The key economic weakness--a serious insufficiency of crude oil--places enormous stress on what had been an especially fast-growing economy. Population pressures preclude sharp economic deceleration to cope with this difficulty. The burden of financing Brazilian growth has fallen increasingly to foreign lenders, many of whom already have a large stake in Brazilian finance. [REDACTED]

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